

Fairfax County Economic Index

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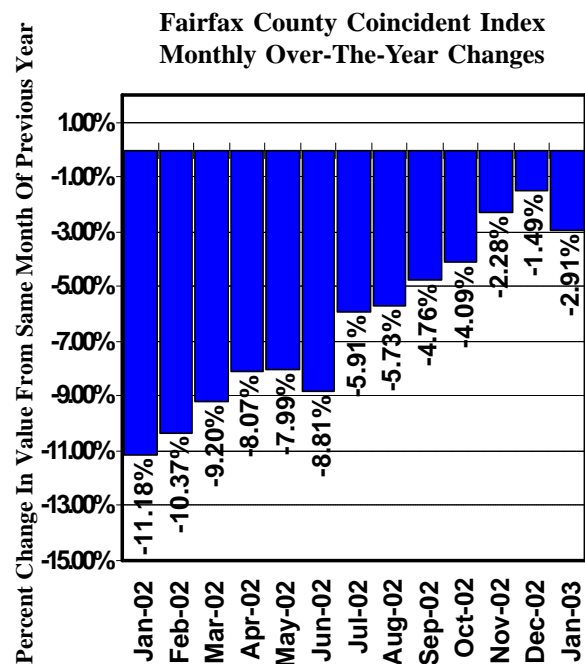
March 2003

Economy Weakens in January But Leading Indicators Pointing Up

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 114.3 in January, a decline of 0.47 percent from December. The Coincident Index has been up and down for five months unable to sustain consecutive monthly gains. However, prior to October, it was negative for six months in a row. On a monthly over-the-year basis, the Index is down only 2.9 percent. In January, three of the Index's four components were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down in January following four monthly gains;
- Sales tax collections, adjusted for inflation and seasonal variation, were off slightly following a sharp increase in December; and,
- Consumer confidence (in the present) fell for the third month and for the sixth time in seven months; while,
- Total employment increased for the fifth time in six months.

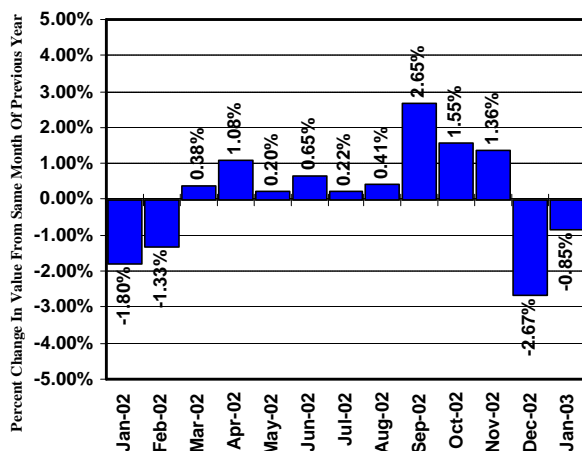
The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 104.2 in January for a gain



Source: Center for Regional Analysis, George Mason University

of 1.98 percent over its December level. Even with this gain, the Index was down 0.85 percent from its January 2002 value, although it did track higher than its 12-month moving average trend. For the last six months, the Leading Index has been up four times. In January, four of the Index's five components contributed to its gain.

**Fairfax County Leading Index
Monthly-Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

- New automobile registrations registered a sharp gain in January and have now been up in three of the last four months;
- Initial claims for unemployment insurance decreased (improved) reversing their increase (worsening) in December;
- Residential building permits were up for the second time in three months; and,
- The total value of residential building permits increased for the third time in the last four months; while,
- Consumer expectations declined for the second month in a row and for the fifth time in seven months.

The Fairfax County economy continued to lag in January extending its weak performance that had spanned the last three quarters of 2002. While the County economy has closed its performance gap on a same-month basis with 2001, it is continuing to under perform its 12-month trend. The added weakness of a below-average holiday retail sales season and a colder-than-average winter, compounded by growing anxiousness resulting from geopolitical uncertainty, has brought the County's

economy, along with the Washington area and national economies, to a standstill. This loss of momentum is tied to externalities and until these are mitigated, the County's economy can only struggle with realizing its inherent growth potential. The Leading Index, while still tracking well below its pre-recession level, is pointing up reflecting the potential for renewed expansion following the resolution of the hostilities in Iraq.

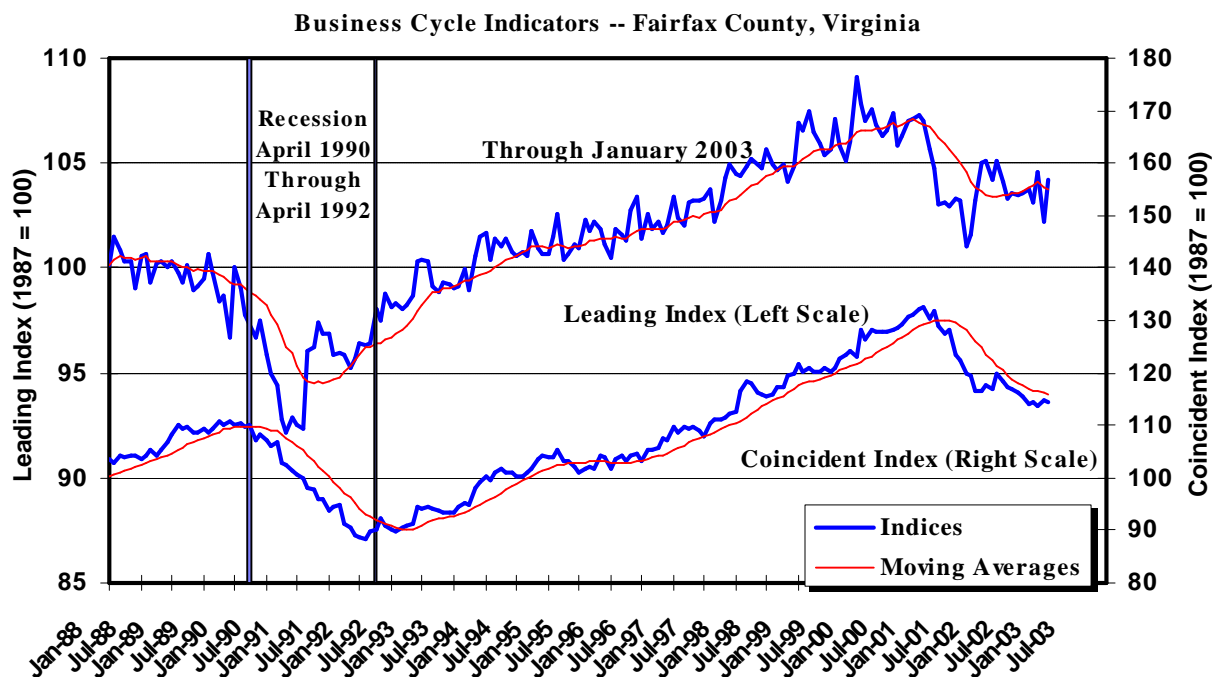
CURRENT CONDITIONS

The Fairfax County economy was slowed in January by a combination of seasonal and global factors. While the economic forecast for the first half of the year was closely tied to the events leading up to the war in Iraq and its outcome—geopolitical risk, the severity of this year's winter has further challenged the fragility of the economy.

Consumers, who have been carrying the economy over the national recession in 2001 and through the ups and downs of 2002, have reduced their spending at least temporarily. Consumer confidence has dropped to a 10-year low and now stands 19 percentage points below its January 2002 level. Moreover, retail sales, adjusted for normal season variation, were down 3.5 percent in January from December and new automobile registrations were 12.5 percent lower than in January 2002.

Still, the economy is in remarkably good shape when measured by its labor market conditions. Just-released revised employment data for 2002 (re-benchmarked) show the Washington area to have generated net new jobs over the year; previous monthly estimates had the metropolitan area losing jobs. While the region's wage and salary employment gains only totaled 9,000 for all of 2002, the Washington area was the only metropolitan area among the top ten largest that registered net new job growth. And, the revised data showed that job growth accelerated over the second quarter with January's gain compared to January 2002 totaling 42,900 net new jobs, also the best performance among major metropolitan areas.

Job growth has continued in Fairfax County as well. In January, the County's employment base grew 1.6 percent or by 8,760 jobs from January



Source: Center for Regional Analysis, George Mason University

2002 and accounted for 20.5 percent of the Washington area job growth for that period.

While labor force data for January have not been released yet, December's 2.5 percent unemployment rate was well below the 3.1 percent rate for the metropolitan area and the 6.0 percent unemployment rate for the nation. With low unemployment and job growth in 2002, the County's economy has generated income growth and gains in total output. These positive conditions will enable the expansion to accelerate as soon as consumers and business investors sense that the geopolitical risk has diminished.

NEAR-TERM OUTLOOK

The inherent strength of the County's economy is seen in its Leading Indicators. Even though many of these indicators still are below their January 2002 levels, the Index has sustained month-to-month gains in five of the last eight months. While this trend has been only slightly positive (0.9 percent), it has been achieved while consumer expectations have registered a 25 percent decline.

During this same period, in spite of several well publicized bankruptcies and layoff announcements, initial claims for unemployment insurance declined in five months, losing (improving) on average almost 5 percent monthly since May 2002.

The labor market outlook and consumer spending will drive the County's economy as soon as it escapes the grasp of the Iraq war. February and March data will show patterns similar to January with the economy struggling to overcome the effects of the winter and the war. The war will be the principal variable beyond March. As soon as the outcome appears certain, consumers will start spending the money they have saved. It is not that consumers do not have money to spend, as in a more typical economic slowdown, it is that that have not felt like spending it.

The expansion should re-appear during the second quarter unless the war goes badly and then the current loss of economic momentum could extend well into the second half. If that occurs, the outlook for 2003 will be quite different than that forecast at the beginning of the year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jan-03 Prelim.	Dec-02 Final	Jan-02 Final	Dec-02 to Jan-03	Jan-02 to Jan-03
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	114.27	114.81	117.69	-0.47	-2.91
Leading Index (1987 = 100)	104.20	102.18	105.10	1.98	-0.85
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	542,102	540,568	533,342	0.28	1.64
<i>Total Covered Employment (Unadjusted)</i>	<i>535,017</i>	<i>548,915</i>	<i>526,371</i>	<i>-2.53</i>	<i>1.64</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	326	332	396	-1.82	-17.63
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>482</i>	<i>523</i>	<i>563</i>	<i>-7.84</i>	<i>-14.40</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,663	8,979	8,497	-3.52	1.95
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,198</i>	<i>16,445</i>	<i>8,804</i>	<i>-44.07</i>	<i>4.48</i>
South Atlantic Consumer Confidence	88.2	91.2	98.8	-3.29	-10.73
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	7,418	5,557	8,481	33.50	-12.53
<i>Automobile Registrations (Unadjusted)</i>	<i>6,239</i>	<i>4,840</i>	<i>7,133</i>	<i>28.90</i>	<i>-12.53</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,666	1,879	1,536	-11.29	8.50
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>2,349</i>	<i>1,832</i>	<i>2,165</i>	<i>28.22</i>	<i>8.50</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>86.6</i>	<i>91.1</i>	<i>106.9</i>	<i>-4.94</i>	<i>-18.99</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	359	191	385	88.42	-6.71
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>264</i>	<i>144</i>	<i>283</i>	<i>83.33</i>	<i>-6.71</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	27,561	17,679	33,705	55.89	-18.23
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>32,326</i>	<i>23,506</i>	<i>38,040</i>	<i>37.52</i>	<i>-15.02</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	#N/A	587,756	585,513	#N/A	#N/A
<i>Total Labor Force (Unadjusted, Revised By BLS)</i>	<i>#N/A</i>	<i>584,077</i>	<i>578,563</i>	<i>#N/A</i>	<i>#N/A</i>
Unemployment Rate (Percent, Seasonally Adjusted)	#N/A	2.51	3.11	--	--
<i>Unemployment Rate (Percent, Unadjusted, Revised By BLS)</i>	<i>#N/A</i>	<i>2.31</i>	<i>3.14</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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